SaskTel

Consolidated Financial Statements of

SASKATCHEWAN TELECOMMUNICATIONS INTERNATIONAL, INC.

December 31, 2007

Saskatchewan Telecommunications International Inc. (SaskTel International)

www.sasktel-international.com

Saskatchewan Telecommunications International, Inc. (SI) is incorporated under the laws of the Province of Saskatchewan. As a wholly-owned subsidiary of the Saskatchewan Telecommunications Holding Corporation and with its Head office in Regina, it has a mandate to pursue telecommunications related business opportunities worldwide.

For more than twenty years now, SaskTel International has been reaching out to the world, sharing SaskTel's extensive technological expertise with customers. SI is a company that does the little things right and is committed to success. This commitment has seen SI staff impress customers around the globe, from Manila to Maputo, for over two decades now. SI has helped clients around the world develop, improve and expand their telecommunications systems. Since 1986, SI has worked in more than 30 countries in six continents and on more than 70 projects. Presently, SI employs 36 people.

Since 1986, SaskTel International (SI) has been marketing SaskTel's technological and software solutions expertise to customers around the world. Advanced technologies that were developed to serve the people of Saskatchewan, especially in fiber optics, digital switching and software systems, have opened the doors to international markets. Today SaskTel International, either independently or in partnership with other firms, helps its customers globally to develop, improve and expand their telecommunications systems. SaskTel International's unique relationship with SaskTel, a successful independent operating telecommunications company that is not affiliated with any specific equipment vendor, allows it to search the international marketplace and offer unbiased solutions to its customers.

President's Message

In 2007, SaskTel International was awarded a three year management contract by the Government of Tanzania to manage all aspects of the operations, maintenance and expansion of Tanzania Telecommunications Company Limited (TTCL) in order to improve the company's financial, commercial and technical performance. While sharing its telecom management expertise with TTCL half way around the world, SI assisted Bell Aliant to convert approximately 843,000 Nova Scotia and Prince Edward Island customer records to SI's MARTENS integrated suite of network management software. This deal is the largest MARTENS conversion in SI's history, and is part of an ongoing relationship SI has established with Bell Aliant.

In addition to providing technological and software solutions to customers throughout the world, SaskTel International has, in recent years, brought successful investment opportunities to the SaskTel Holding Corporation. SaskTel International has been responsible for investments that have generated a net profit for SaskTel and the Province of Saskatchewan of more than $100 million. SaskTel International will continue to explore equity investments that are excellent opportunities.

In its own right SaskTel International has been profitable for sixteen consecutive years. Net income for 2007 exceeded eight hundred thousand, bringing total operating profits exclusive of investment gains since 1986 to more than $23 million. Total revenues for that same time period exceeded $292 million.

In the future, SI believes the telecommunications market will continue to show signs of positive growth and provide many opportunities for SI to work throughout the world. In 2008, SI sees continued telecoms growth that will provide opportunity for SaskTel International to grow as a company.

Doug Burnett

President, SaskTel International

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AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Telecommunications International, Inc. as at December 31, 2007 and the consolidated statements of operations and comprehensive income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
February 1, 2008

KPMG LLP, is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. KPMG Canada provides services to KPMG LLP.

Consolidated Statement of Operations and Comprehensive Income

For the year ended December 31, (Thousands of dollars)	2007	2006
Sales and consulting revenue	$11,220	$15,774
Direct expenses	7,880	11,772
Gross profit	3,340	4,002
Operating expenses	2,631	3,257
Restructuring charges	-	72
	2,631	3,329
Income from operations	709	673
Other items	173	50
Net income	882	723
Other comprehensive income	-	-
Comprehensive income	$882	$723

See accompanying notes

Consolidated Statement of Retained Earnings

For the year ended December 31, (Thousands of dollars)	2007	2006
Retained earnings, beginning of year	$1,968	$1,896
Net income	882	723
	2,850	2,619
Dividends	-	651
Retained earnings, end of year	$2,850	$1,968

See accompanying notes

Consolidated Statement of Financial Position

As at December 31, (Thousands of dollars)	2007	2006
Assets		
Current assets		
Cash and short-term investments (Note 5)	$2,816	$344
Accounts receivable (Note 9a)	1,034	2,425
Work in process	441	923
Prepaid expenses	175	62
	4,466	3,754
Property, plant and equipment (Note 6)	212	261
Deferred costs (Note 7)	970	970
	$5,648	$4,985
Liabilities and shareholder's equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 9a)	$1,193	$1,366
Services billed in advance	605	-
Dividend payable	-	651
	1,798	2,017
Shareholder's equity		
Share capital		
Authorized-unlimited number of class A common shares		
Issued - 1,000,000 shares	1,000	1,000
Retained earnings	2,850	1,968
	3,850	2,968
	$5,648	$4,985

See accompanying notes

On behalf of the Board

Robert Watson

Mike Anderson

Consolidated Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2007	2006
Operating activities		
Net income	**$882**	$723
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	**74**	79
Net loss in equity investment	**-**	12
Loss on disposal of assets	**-**	17
Net change in non-cash working capital (Note 9b)	**2,192**	(2,010)
Cash provided by (used in) operating activities	**3,148**	(1,179)
Investing activities		
Property, plant and equipment expenditures	**(25)**	(21)
Cash used in investing activities	**(25)**	(21)
Financing activities		
Dividends paid	**(651)**	(940)
Cash used in financing activities	**(651)**	(940)
Increase (decrease) in cash	**2,472**	(2,140)
Cash and cash equivalents, beginning of year	**344**	2,484
Cash and cash equivalents, end of year	**$2,816**	$344
Comprised of:		
Cash	**$104**	$23
Short-term investments	**2,712**	321
	$2,816	$344

See accompanying notes

Notes to Consolidated Financial Statements

Note 1 – The Corporation

Saskatchewan Telecommunications International, Inc. (the Corporation) is incorporated under the laws of the Province of Saskatchewan. The Corporation is a wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (Holdco) with the mandate of pursuing core telecommunications business opportunities worldwide.

The financial results of the Corporation are included in the consolidated financial statements of Holdco. As a wholly owned subsidiary of Holdco, a Saskatchewan Provincial Crown corporation, the Corporation is not subject to Federal or Provincial income taxes in Canada.

Note 2 – Change in accounting policies

Effective January 1, 2007, the Corporation adopted the accounting recommendations for accounting changes (Canadian Institute of Chartered Accountants (CICA) Handbook Section 1506) in accordance with the transitional provisions of the section. The new standard allows for voluntary changes in accounting policies only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of section 1506 has had no material impact on these consolidated financial statements.

Effective January 1, 2007, the Corporation adopted the accounting recommendations for comprehensive income (CICA Handbook Section 1530), financial instruments - recognition and measurement (CICA Handbook Section 3855), financial instruments – disclosure and presentation (CICA Handbook Section 3861), hedges (CICA Handbook Section 3865) and equity (CICA Handbook Section 3251) in accordance with the transitional provisions of the sections. These sections provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities, non-financial derivatives and embedded derivatives, and describe when and how hedge accounting may be applied. CICA Handbook Section 1530 provides standards for the reporting and presentation of comprehensive income, which represents the change in equity from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles in Canada.

Upon adoption of these new standards, the Corporation designated its cash and short-term investments as held-for-trading which are measured at fair value. Unrealized changes in the fair value of these financial instruments are included in net income. Accounts receivable are classified as loans and receivables which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities which are measured at amortized cost using the effective interest method. The adoption of these new standards has had no material impact on these consolidated financial statements.

Derivatives may be embedded in other host instruments. Under the new standards embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, when the embedded derivative has the same terms as those of a stand-alone derivative, and the combined contract is not held-for-trading or designated at fair value. These embedded derivatives are measured at fair value with subsequent changes recognized in net earnings. The Corporation selected January 1, 2003 as the transition date for embedded derivatives, as such only contracts or financial instruments entered into or modified after the transition date were examined for embedded derivatives. As at December 31, 2007, and December 31, 2006, the Corporation does not have any outstanding contracts or financial instruments with embedded derivatives.

Notes to Consolidated Financial Statements

Note 2 – Change in accounting policies, continued

The Corporation had no "other comprehensive income or loss" transactions during the period and no opening or closing balances for accumulated other comprehensive income or loss.

Note 3 – Summary of significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The most significant policies are outlined below.

Subsidiaries and investments

The consolidated financial statements include the accounts of the Corporation and its subsidiaries with all significant intercompany transactions and balances being eliminated. Investments in companies in which the Corporation has significant influence are accounted for by the equity method.

Declines in value below cost, of investments held using the equity method, are recognized as a charge to income when such declines are considered to be other than temporary.

The following is a summary of the operating entities under the Corporation's group of companies:

Name	Percentage ownership	Basis for inclusion
Operating entities:		
SaskTel International Consulting, Inc.	100%	Consolidation
Saskatchewan Telecommunications International (Tanzania) Limited	100%	Consolidation

The Corporation owns 100% of Battleford International, Inc. and 49% of Lootah SaskTel LLC; non-operating entities.

Cash and short-term investments

Cash and short-term investments include interest bearing investments with Holdco that are due on demand and are stated at fair value.

Work in process

Work in process is valued at the lower of cost and net realizable value.

Property, plant and equipment

Office furniture and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated on a straight-line basis over the estimated useful life of the asset.

Asset	Estimated useful life
Office furniture and equipment	4 – 17 years

Notes to Consolidated Financial Statements

Note 3 – Summary of significant accounting policies, continued

Deferred costs

Deferred costs consist of software developed over time. The Corporation follows the policy of capitalizing related equipment, labour and installation costs related to the development of new software. These costs are then amortized from the date the asset is substantially completed and put into productive use. Amortization is calculated on a straight-line basis over the estimated useful life of the asset.

Management of the Corporation periodically assesses the recoverability of the deferred costs with respect to expected future operations and will write off the deferred costs not considered recoverable.

Asset	Estimated useful life
Software	5 years

Revenue recognition

Operating revenues for perpetual licenses are recognized on delivery or according to the terms of the license agreement. Where the arrangement includes multiple elements, perpetual license revenues are recognized on delivery, provided the undelivered elements are not essential to the functionality of the license and the Corporation has evidence of fair value for all the undelivered items. If payment is subject to customer acceptance, revenue is not recognized until customer acceptance or expiration of the acceptance period. Support and maintenance fees are recognized over the term of the contract. Fees for professional services, other than in the context of multiple element arrangements are recognized as services are rendered.

Revenues for turn-key telecommunication projects and consulting services are recognized using the percentage of completion method or the achievement of contract milestones. Amounts billed or paid in advance of services provided are recorded as deferred revenue.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

Derivative financial instruments

Derivative financial instruments are used by the Corporation in the management of its financial exposures as deemed appropriate, and based on the risk management strategy of the Corporation. The Corporation's policy is not to use derivative financial instruments for trading or speculative purposes.

The Corporation, from time to time, is party to certain derivative financial instruments, principally forward foreign exchange contracts (used to manage foreign currency exposures).

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. The Corporation also formally assesses, both at the hedge's

Notes to Consolidated Financial Statements

Note 3 – Summary of significant accounting policies, continued

inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. For fair value hedges, changes in the fair value of the derivatives and corresponding changes in fair value of the hedged items attributed to the risk being hedged will be recognized in the consolidated statements of earnings. For cash flow hedges, the effective portion of the changes in the fair values of the derivative instruments will be recorded in other comprehensive income until the hedged items are recognized in the consolidated statements of earnings.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amounts of software under development, and accounts receivable and the underlying provision for bad debts. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Note 4 – Accounting policy developments

Capital disclosures
The new recommendations of the CICA for capital disclosures (CICA Handbook Section 1535) will become effective for the Corporation's 2008 fiscal year. The new recommendations establish standards for disclosing information about the Corporation's capital (debt and equity) and how it is managed. Specifically, information should be disclosed to enable users of the financial statements to evaluate the Corporation's objectives, policies and processes for managing capital. The Corporation does not expect to be materially affected by the new recommendations.

Financial instruments - disclosures
The new recommendations of the CICA for financial instruments – disclosures (CICA Handbook Section 3862) replace the existing disclosure recommendations of financial instruments – disclosure and presentation (CICA Handbook Section 3861). The new recommendations will apply to the Corporation's 2008 fiscal year and will result in additional disclosures related to financial instruments, and the nature, extent and management of risks arising from financial instruments to which the entity is exposed.

Financial instruments - presentation
The existing recommendations of the CICA for financial instruments presentation included in financial instruments – presentation and disclosure (CICA Handbook Section 3861) are carried forward, unchanged as financial instruments - presentation (CICA Handbook Section 3863).

Notes to Consolidated Financial Statements

Note 4 – Accounting policy developments, continued

International Financial Reporting Standards
The Accounting Standards Board of the CICA has adopted a strategic plan that will result in Canadian generally accepted accounting principles (Canadian GAAP) converging with International Financial Reporting Standards (IFRS). It is anticipated that the transition process will be completed by 2011, at which time Canadian GAAP will be fully converged with IFRS for public accountable enterprises. Throughout the transition period, standards subject to joint-convergence projects may be adopted prior to full convergence. Standards not subject to joint convergence projects will be exposed in an omnibus manner for adoption at the time of convergence. Throughout the process there will be assessments of progress toward convergence, the first of which will be a progress review by the Accounting Standards Board, to be released by March 31, 2008. This review will confirm the implementation date for convergence. Due to the evolving nature of IFRS through convergence projects, it is difficult to assess the impact of convergence, if any, on the Corporation.

Note 5 – Cash and short-term investments

Short-term investments represent funds invested with Holdco at an interest rate of 4.34% (2006 – 4.31%).

Note 6 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2007	2006
			(Thousands of dollars)	
Office furniture and equipment	**$532**	**$320**	**$212**	$261

Depreciation and amortization for the year totalled $74,716 (2006 - $79,427).

Note 7 – Deferred costs

	Cost	Accumulated amortization	Net book value	
			2007	2006
			(Thousands of dollars)	
Software under development	**$970**	**$ -**	**$970**	$970

Note 8 – Commitments and contingencies

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2007 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's financial position or results of operations.

Notes to Consolidated Financial Statements

Note 9 – Additional financial information

a) Balance sheet

	2007	2006
	(Thousands of dollars)	
Accounts receivable		
Customer accounts receivable	$1,520	$2,901
Allowance for doubtful accounts	(493)	(493)
	1,027	2,408
Other	7	17
	$1,034	$2,425
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	$761	$823
Payroll and other employee-related liabilities	408	565
Taxes payable	24	(22)
	$1,193	$1,366

b) Supplementary cash flow information

	2007	2006
	(Thousands of dollars)	
Net change in non-cash working capital		
Accounts receivable	$1,391	$(959)
Work in process	482	(450)
Prepaid expenses	(113)	(30)
Accounts payable and accrued liabilities	(173)	(288)
Services billed in advance	605	(283)
	$2,192	$(2,010)

Note 10 – Financial instruments

The Corporation's financial instruments include cash and short-term investments, accounts receivable, accounts payable, accrued liabilities, and short-term obligations, which by their nature are subject to risks.

Price risk – currency risk

The Corporation is exposed to currency risk primarily through transactions with foreign suppliers and short-term foreign commitments. The Corporation uses a combination of derivative financial instruments to manage these exposures on an exception basis. The Corporation does not actively trade derivative financial instruments. At December 31, 2007, there were no derivative financial instruments outstanding.

Notes to Consolidated Financial Statements

Note 10 – Financial instruments, continued

Price risk – interest rate risk

The Corporation is exposed to interest rate risk arising from fluctuations in interest rates on short-term investments, and short-term obligations. Interest rate risk on short term liabilities are managed based on the refinancing needs of the Corporation.

Price risk – market risk

The Corporation is exposed to market risk on short-term investments. Fair value adjustments will fluctuate based on changes in market prices, however the fluctuations should not be significant due to the short term nature of the investments.

Credit risk

The Corporation is exposed to credit risk through its short-term investments and accounts receivable. Credit risk related to short-term investments is minimized by dealing with institutions that have strong credit ratings. Credit risk related to customer accounts receivable is minimized by evaluating customer credit risk and limiting credit availability when necessary. Provisions for credit losses are maintained and regularly reviewed by the Corporation.

Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The carrying value of cash and short-term investments, accounts receivable, accounts payable, accrued liabilities and short-term obligations approximates their fair values due to the short-term maturity of these financial instruments.

Note 11 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan, and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and Holdco (collectively referred to as "related parties").

Notes to Consolidated Financial Statements

Note 11 – Related party transactions, continued

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2007	2006
		(Thousands of dollars)
Sales and consulting revenue	**$2,067**	$1,941
Direct and operating expenses	**749**	882
Other income	**143**	79
Accounts receivable	**453**	333
Accounts payable and accrued liabilities	**366**	11

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.